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Eurobank

DAILY OVERVIEW
OF GLOBAL MARKETS & THE SEE REGION

Thursday, February 22, 2018

KEY UPCOMING DATA & EVENTS THIS WEEK

GLOBAL

US
- Feb 21
  - Existing home sales (Jan)
  - FOMC meeting minutes (Jan. 31)
- Feb 22
  - Jobless claims (weekly)
  - Atlanta Fed President Bostic speaks
- Feb 23: San Francisco Fed President Williams speaks

EUROZONE
- Feb 21: PMI manufacturing & services (Feb, prel.)
- Feb 22
  - German IFO business climate (Feb)
  - Account of the ECB January policy meeting
- Feb 23
  - HICP (Jan. final)
  - German Q4 GDP (details)

UK
- Feb 21: Claimant count unemployment (Feb), average earnings & unemployment rate (Jan)
- Feb 22: GDP (Q4, 2nd est.)

GREECE
- Feb 20: Current account (Dec)

CYPRUS
- Feb 20: CPI (Jan)

SEE

ROMANIA
- Feb 22: T-bonds auction
- Feb 23: Money supply (Jan)

SERBIA
- Feb 20: T-bonds auction
- Feb 23: CPI (Jan)

Source: Reuters, Bloomberg, Eurobank Research

HIGHLIGHTS

WORLD ECONOMIC & MARKET DEVELOPMENTS

GLOBAL MARKETS: US Treasury yields hit fresh highs across the curve and the USD firmed following the release of the minutes from the 31 January FOMC monetary policy meeting late on Wednesday which raised speculation for a steeper path of Fed rate tightening ahead. Focus today is on the account of the 24-25 January ECB meeting.

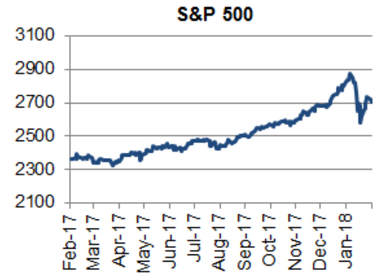
GREECE: According to press reports, addressing the European Parliament's Committee on Economic and Monetary Affairs, the Greek Finance Minister Euclid Tsakalotos explained that he is not in favour of a credit line for Greece after the expiration of the current programme because it would hurt credibility signaling instead that the Eurozone does not trust Greece. He added that a credit line would constitute a substitute to a cash buffer and not a complement; therefore, it does not make sense to have both. Eurogroup President Mario Centeno reportedly noted that Greece ought to assess and utilise all available mechanisms and tools at its disposal. Moody's upgraded Greece's issuer rating to B3 from Caa2 as well as its unsecured bond and programme ratings to B3/(P)B3 from Caa2/(P)Caa2 and kept its outlook 'positive'.

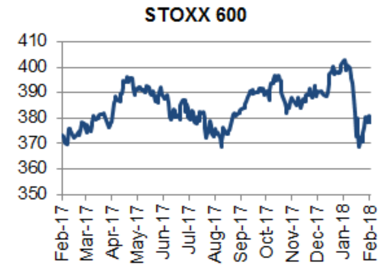
SOUTH EASTERN EUROPE

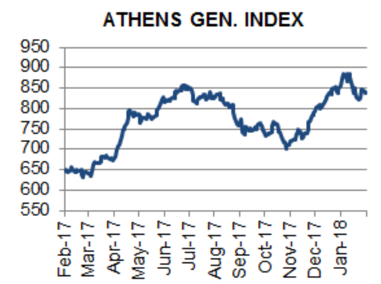
CESEE MARKETS: The majority of emerging markets assets recoiled earlier on Thursday amid increased expectations for more aggressive than previously priced-in Fed rate tightening after the release of the FOMC meeting minutes yesterday. Serbia successfully exited today a $1.32bn three-year precautionary Stand-By Arrangement with the IMF.

Latest world economic & market developments

GLOBAL MARKETS







Source: Reuters, Bloomberg, Eurobank Research

US Treasury yields hit fresh highs across the curve and the USD firmed following the release of the minutes from the 31 January FOMC monetary policy meeting late on Wednesday which raised speculation for a steeper path of Fed rate tightening ahead. The minutes revealed increasing optimism on the near-term US growth outlook with "several" participants suggesting that upside risks may have increased. Furthermore, "almost all participants" shared the view that inflation will move up to the Committee's 2% objective medium-term making particular reference on tentative signs of a broad-based pick up in wage growth. In a knee-jerk reaction, the 10-yr UST yield hit a fresh four-year high of 2.957% soon after the release of the minutes before retreating modestly to levels around 2.931% in early European trade on Thursday, remaining though above an intraday low of 2.877% hit at some point early yesterday. Along these lines, the 2-yr UST yield was trading close to 2.266% at the time of writing after hitting a new nine-year peak of 2.822% on Thursday with the 2/10-yr yield spread narrowing to a two-week low of 66.5bps. Higher US Treasury yields favored the USD with the DXY index rising above 90.00 yesterday for the first time in about ten days taking this week's gains to 1.3% thus far. The EUR/USD was hovering around 1.2285/88 at the time of writing after falling below 1.2300 yesterday. A higher than expected drop in Euro area February PMIs may have also had some impact. Focus today is on the account of the 24-25 January ECB meeting and a more dovish than anticipated tone could potentially push the EUR/USD further lower towards 1.2200. However, even in this case, on the back of positive euro area fundamentals and mounting concerns about US twin deficits, we should not rush to conclude that the EUR/USD has embarked on a sustained downward trend short-term.

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GREECE

According to press reports, addressing the European Parliament's Committee on Economic and Monetary Affairs, the Greek FinMin Euclid Tsakalotos opined that a credit line for Greece after the expiration of the current programme would hurt credibility signaling instead that the Eurozone does not trust Greece. He added that a credit line would constitute a substitute to a cash buffer and not a complement; therefore, it does not make sense to have both. Furthermore, he stated that the Greek post-programme growth strategy will be presented after the Orthodox Easter (April 8th) and then probably be discussed at the Eurogroup. The primary objectives of that strategy will be, firstly, to not return to the pre-2008 model and secondly, to form a comprehensive programme, taking into account Greece's particular profile. Meanwhile, Eurogroup President Mario Centeno reportedly noted that Greece ought to assess and utilise all available mechanisms and tools at its disposal, nevertheless clarifying that the decision for the exact post-programme arrangement rests with the Greek government. In other news, Moody's upgraded Greece's issuer rating to B3 from Caa2 as well as its unsecured bond and programme ratings to B3/(P)B3 from Caa2/(P)Caa2 and kept its outlook 'positive'. The rationale backing Moody's upgrade was as follows: 1) Material fiscal and institutional improvements achieved under the current ESM programme are likely to be sustained in the coming years, 2) The successful conclusion of the ESM programme is considered highly likely and will be supported by a large cash buffer and creditor commitment to debt relief, and 3) The risk of another default or restructuring on private sector debt is now materially lower. The positive outlook reflects the potential for more positive outcomes subject to staying on the reform path in the post-programme era thus achieving stronger-than-expected and sustained economic growth and a more rapid reduction in the public debt ratio.

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BULGARIA: Indicators	2016	2017e	2018f
Real GDP growth %	3.9	3.8	3.8
CPI (pa, yoy %)	-0.8	2.1	2.4
Budget Balance/GDP*	1.6	0.8	-1.0
Current Account/GDP	5.4	5.0	4.5
EUR/BGN (eop)		1.9558	
	2016	current	2017
Policy Rate (eop)	N/A	N/A	N/A

* on a cash basis
Source: Reuters, Bloomberg, Eurobank Research, National Authorities

CYPRUS: Indicators	2016	2017e	2018f
Real GDP growth %	3.0	3.8	3.6
HICP (pa, yoy %)	-1.2	0.7	1.0
Budget Balance/GDP*	0.4	0.2	0.4
Current Account/GDP	-5.7	-5.4	-6.2

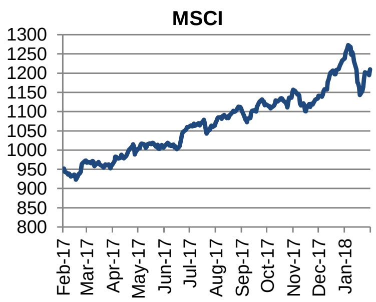
* ESA 2010
Source: Reuters, Bloomberg, Eurobank Research, National Authorities

ROMANIA: Indicators	2016	2017e	2018f
Real GDP growth %	4.8	7.0	4.0
CPI (pa, yoy %)	-1.6	1.3	3.5
Budget Balance/GDP *	-2.4	-3.0	-4.4
Current Account/GDP	-2.2	-3.5	-4.0
EUR/RON (eop)	4.54	4.67	4.70
	2017	current	2018
Policy Rate (eop)	1.75	2.25	3.00

* on a cash basis
Source: Reuters, Bloomberg, Eurobank Research, National Authorities

SERBIA: Indicators	2016	2017e	2018f
Real GDP growth %	2.7	1.8	3.0
CPI (pa, yoy %)	1.1	3.2	3.0
Budget Balance/GDP	-1.3	0.5	-0.6
Current Account/GDP	-3.1	-4.0	-4.5
EUR/RSD (eop)	123.40	118.2	116.5
	2017	current	2018
Policy Rate (eop)	3.50	3.50	4.00

Source: Reuters, Bloomberg, Eurobank Research, National Authorities



Credit Ratings

L-T ccy	Moody's	S&P	Fitch
SERBIA	Ba3	BB	BB
ROMANIA	Baa3	BBB-	BBB-
BULGARIA	Baa2	BBB-	BBB
CYPRUS	B1	BB+	BB-

Latest economic & market developments in the CESEE region

CESEE MARKETS

The majority of emerging markets assets recoiled earlier on Thursday amid increased expectations for more aggressive than previously priced-in Fed rate tightening after the release of the FOMC meeting minutes yesterday. The MSCI Emerging Markets index shed more than 1% in morning European trade compared to Wednesday's settlement, giving back all of this week's gains, which totaled 0.8% yesterday. In the CESEE space, the main indices in Poland and Hungary led the losers' pack, posting respective declines of 0.7% and 0.9% on the day.

Regional currencies and government bonds also fell earlier on Thursday as risk appetite sapped and the USD retained a firm tone. In FX markets, the Turkish lira and the Polish zloty fared worse than their CESEE peers, declining by 0.4% and 0.3%, respectively on the day to trade around 3.8007/$ and 4.1825/€ at the time of writing. On the flipside, the Serbian dinar outperformed, with the EUR/RSD hitting a new 3-½-year trough near 117.72 in European markets following news that the country successfully exited today a $1.32bn three-year precautionary Stand-By Arrangement with the IMF. In more detail, the Fund highlighted at a statement released at its website, that the country outperformed several of the programme's macroeconomic goals. Head of the IMF's Serbia team James Roaf also noted that the country has managed to return to positive growth rates, in tandem with rising investment and employment, after stalling for years in the aftermath of the global financial crisis. In the said statement, the Fund also acknowledged that the fiscal deficit, which in 2014 was the second-largest in Europe, reversed to a surplus in 2017. It also added that "economic confidence has improved with stronger investment both from foreign and domestic sources. Unemployment is near historic lows, and falling. Banks are solid, and nonperforming loans are now below their pre-crisis levels." Yet, the Fund stressed the importance of continuation of the reforms, with James Roaf emphasizing that they "need to be deepened after the conclusion of the program for Serbia to reach its full potential." The Fund outlined several key areas that the government would need to concentrate on; namely, reforming institutions and public services, overhauling state-owned enterprises, improving the business climate and enhancing infrastructure. According to recent comments by FinMin Dusan Vujovic, a new arrangement will probably be agreed before the summer and most likely entail the form of the non-financing Policy Coordination Instrument (PCI). A loan-free agreement echoes plausible as the government has already demonstrated throughout these three years under the SBA its own-financing capability, having treated the current programme as precautionary. Meanwhile, such a deal suggests continuation of reforms and provides a valuable policy anchor going forward.

Today's calendar of macroeconomic data and developments is relatively light on both a global and CESEE scale. ECB meeting minutes lure market attention, while the Central Bank of Poland also releases the same publication. Poland's budget data for January is due for release later on the day. In Turkey, real sector confidence and capacity utilization for February is also due to be announced.

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GLOBAL MARKETS

Stock markets

	Last	ΔD	ΔYTD
S&P 500	2701.33	-0.5%	1.0%
Nikkei 225	21736.44	-1.1%	-4.5%
STOXX 600	378.15	-0.8%	-2.8%

FOREX

	Last	ΔD	ΔYTD
EUR/USD	1.2281	0.0%	2.3%
GBP/USD	1.3902	-0.1%	2.8%
USD/JPY	107.3	0.4%	5.0%

Government Bonds

(yields)	Last	ΔDbps	ΔYTD bps
UST - 10yr	2.93	-2	52
Bund-10yr	0.73	1	30
JGB - 10yr	0.06	0	1

Commodities

	Last	ΔD	ΔYTD
GOLD	1322	-0.2%	1.5%
BRENT CRUDE	65	-0.8%	-3.0%
LMEX	3425	0.4%	0.2%

CESEE MARKETS

SERBIA

Money Market

BELIBOR	Last	ΔDbps	ΔYTD bps
T/N	2.54	2	2
1-week	2.66	1	5
1-month	2.83	0	-2
3-month	3.13	0	1
6-month	3.24	0	0

RS Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RSD	3.99	0	-29
5Y RSD	4.23	0	-7
7Y RSD	4.62	#N/A N/A	-56

RS Eurobonds

	Last	ΔDbps	ΔYTD bps
USD Feb-20	3.50	3	50
USD Nov-24	6.25	-22	21

CDS

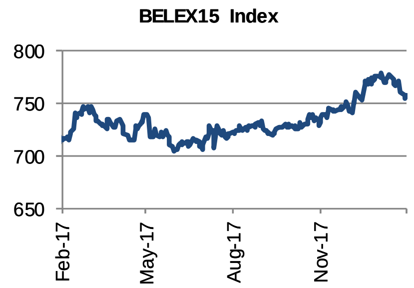
	Last	ΔDbps	ΔYTD bps
5-year	101	0	-17
10-year	148	0	-14

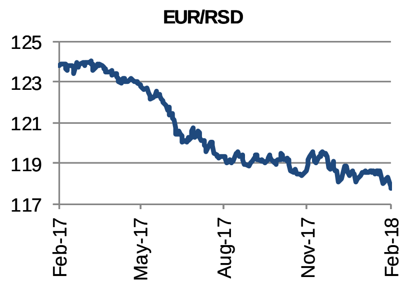
STOCKS

	Last	ΔD	ΔYTD
BELEX15	757.8	0.38%	-0.26%

FOREX

	Last	ΔD	ΔYTD
EUR/RSD	118.01	-0.20%	0.76%





ROMANIA

Money Market

ROBOR	Last	ΔDbps	ΔYTD bps
O/N	1.32	0	23
1-month	1.61	0	-26
3-month	2.09	0	4
6-month	2.41	0	14
12-month	2.51	0	19

RO Local Bonds

	Last	ΔDbps	ΔYTD bps
3Y RON	3.45	0	7
5Y RON	3.94	0	16
10Y RON	4.55	0	24

RO Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Oct-25	1.60	#N/A N/A	1
USD Jan-24	3.71	2	71

CDS

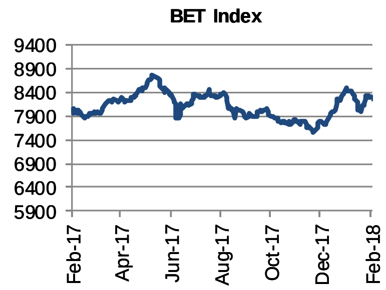
	Last	ΔDbps	ΔYTD bps
5-year	84	0	-6
10-year	129	0	-5

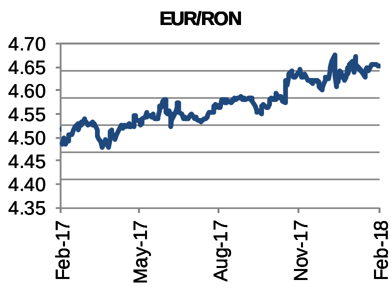
STOCKS

	Last	ΔD	ΔYTD
BET	8284.8	0.04%	6.85%

FOREX

	Last	ΔD	ΔYTD
EUR/RON	4.6579	0.03%	0.15%





BULGARIA

Money Market

SOFIBOR	Last	ΔDbps	ΔYTD bps
LEONIA	0.01	0	1
1-month	-0.27	0	-1
3-month	-0.19	0	-1
6-month	-0.06	0	-1
12-month	0.32	0	-1

BG Local Bonds

(yields)	Last	ΔDbps	ΔYTD bps
3Y BGN	-0.06	-1	1
5Y BGN	0.24	0	10
10Y BGN	1.07	0	10

BG Eurobonds

	Last	ΔDbps	ΔYTD bps
EUR Mar-22	0.17	0	25
EUR Sep-24	0.77	0	19

CDS

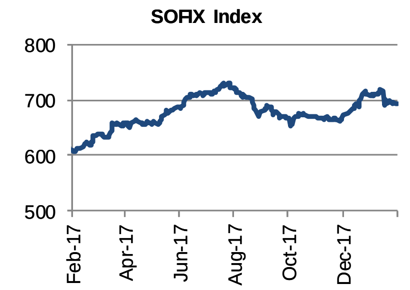
	Last	ΔDbps	ΔYTD bps
5-year	57	-2	-40
10-year	103	0	-39

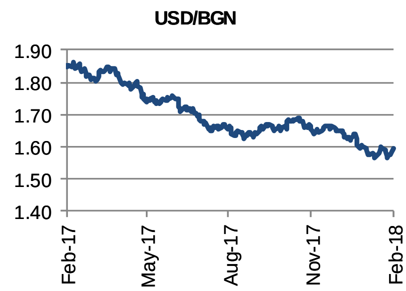
STOCKS

	Last	ΔD	ΔYTD
SOFIX	691.3	-0.06%	2.05%

FOREX

	Last	ΔD	ΔYTD
USD/BGN	1.5929	-0.05%	2.29%





Source: Reuters, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

Data updated as of 10:30 EST

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